E-billing
Streamlining
the Payment
Process

By Jim Carroll

Electronic billing (e-billing) has been around in various forms for decades. Today, however, the concept of streamlining the invoicing and payment process is proving especially attractive, given the fact we continue to drown in paper.

Despite all of the advances in digital business technology through the last many years, we are still very much operating in a paper-based economy. This long-time marriage to the printed page, with no end in sight, has cost the global economy a tremendous amount of money, due to waste and inefficiency.

Consider the math: in the U.S., suppliers of goods and services issue some 15 to 17 billion paper invoices each year, spending upwards of $80 billion (all figures in U.S. dollars) on the process of preparing the bills and moving them around.

Of that total, some $45 billion is spent merely on the mechanics of filing, processing, approving and other activities related to the fine art of paper-pushing. Another $10.7 billion goes to postage, while an additional $15 billion is spent on fees at the financial institutions that are processing the paper cheques—not to mention $5.5 billion in outsourcing fees and $2.2 billion in cheque clearing fees.

Furthermore, on top of all of this spending are the sums we spend on the sophisticated computer systems that have been put in place to produce all of this paper—and on keying and re-keying and re-keying once again the information that is found on those pieces of paper. All told, some $30 billion is spent on the hardware, software and systems to support our addiction to paper-based billing and payment transaction systems.

It is numbers like these that are driving many organizations into the world of e-billing and e-payment, where the cost savings are provable, demonstrable and significant. Early pioneers in the field have reported that, where the cost of processing a paper invoice or payment ranges from $1 to $4 per transaction, it only costs about 10 to 25 cents to do the same thing electronically, if not even less.

EBPP/EIPP

Throughout the last decade, there has been heavy discussion of "e-billing," which generally inferred the opportunity to streamline business and government transactions is somehow limited to the ability to send bills through the Internet. And yet the reality of the technology that has been developed—and what has actually been implemented already—goes far beyond simply online billing.

Today, many leading-edge organizations are involved in one of two activities (and sometimes both): electronic bill presentation and payment (EBPP), a process most often involving consumers; and electronic invoice presentation and payment (EIPP), which largely consists of re-engineering business-to-business (B2B), business-to-government (B2G) and government-to-business (G2B) transactions. Government organizations can discover significant benefits in both areas.

Conceptually, neither type of activity is particularly complex. EBPP involves delivering (presenting) bills to consumers in an electronic format and providing the capability for immediate or subsequent payment online. EIPP

involves the same type of process, but with a greater degree of business process redesign and more sophisticated implementation, given the number of processes that are affected within both the buyer and the seller organizations.

Both types of applications have seen rather significant uptake, despite the recent dot-com meltdown that seems to have soured many on the application of technology to business. For instance, in 2003, the Winnipeg-based electronic payments (e-payments) company TelPay processed approximately 14 million transactions, worth $5.3 billion—an increase of some 33 per cent over the previous year, when its 12 million transactions were worth $4 billion. This included remitting more than $350 million in e-payments to Canadian government departments, an even more marked increase of 102 per cent over 2002 and a volume increase of $183 million.

"It is a pragmatic example of the move towards e-government, using e-payment technology to increase efficiency, convenience and cost-effectiveness," says Brian Denysuik, CEO of TelPay. "When we are seeing increases of more than 100 per cent in a year, it is clear Canadians are receptive to the technology."

A growing market

Such growth in volume is expected to continue. The Gartner Group, a U.S. research and advisory firm, currently believes e-billing will grow by some 80 per cent in volume over the next five years and 40 per cent of all B2B payments will occur electronically by 2006.

Much of this activity is the result of corporate or industry-wide initiatives. One example is CNS, a large-scale financial supply chain network that brings together various buyers and sellers in the cargo industry into one large-scale, integrated e-billing system. CNS has the involvement of some 80 cargo airlines, 1,200 freight forwarding companies and cargo agents. At this point, the company performs about $100 million in electronic invoicing per month, representing 98 per cent of its total invoicing, of which more than 60 per cent is paid via an e-billing system. CNS plans to bring those numbers closer to 100 per cent within a few years.

Such numbers alone demand action by government purchasing executives, who will soon—if not already—be expected to respond to demands from suppliers and become involved in their EIPP initiatives. Companies like Microsoft, General Motors (GM) and IBM are demanding electronic invoicing and, increasingly, electronic payment.

As a result, business processes, staff and day-to-day procedures are undergoing relentless change, with e-billing taking further hold within the economy. It makes sense to get ahead of the curve and deal with EBPP and EIPP on a proactive, rather than reactive, basis.

Strategy

External pressure is one matter, but any government activity in this area must also be justified by a proper and sound business case.

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There are several facets of e-billing that make it a compelling and attractive opportunity. First, if it is properly integrated into an accounting system workflow, users will see more efficient payment routing approval processes, which are the natural result of computerizing many financial applications—not to mention a decreased handling cost per invoice, as described above. There are also direct savings from eliminating massive invoice printing runs and the associated postage, handling and other costs involved in moving around a lot of paper.

Early e-billing pioneers also report the cost of dealing with invoicing/purchasing disputes has decreased, given the faster rate of exchange of information. This is a significant benefit, given the typical invoice dispute is estimated to cost several hundred dollars.

Further evidence that all of these cost savings are real comes from the many cases of e-billing companies providing buyers with discounts of up to two per cent on the purchasing price if they are willing to accept e-bills. The companies would not be implementing these discounts if there were not some real dollar savings to be had.

Another advantage of implementing smart e-billing systems is that users gain better control over cash management and hence play a more strategic, rather than simply tactical, role within their organizations. This line of thinking about strategic opportunities is so significant that a new phrase has been coined to describe the trend: the "financial supply chain."

Financial supply chains

E-billing makes the most sense when it is rolled into efforts to streamline procurement processes. Microsoft, for instance, has been involved in such a process for about eight years and has made some startling discoveries along the way, as it has rationalized the invoicing process of suppliers.

This is no small undertaking; the company issues approximately 490,000 purchase orders and receives some 710,000 invoices each year. Over time, it has learned how to examine the deluge of data within its e-invoicing details, which is where the startling discoveries have been made. For example, Microsoft learned one department was paying 20 cents for each blank CD it used, while another was paying $1.20.

Establishing better control over such cash management is part of an overall push in the private sector for more Web-based interaction. A survey by Fujitsu Consulting reports the average telephone company plans to reduce the call centre volume of all interaction with customers from 45 per cent to 31 per cent this year, while increasing Web-based support volume from six per cent to 23 per cent. EBPP and EIPP fit into this mould, as they too involve significantly re-engineering business processes to make more sense and take full advantage of technology.

A shift in focus

When it comes to G2C transactions, people seem to be ready for e-billing. While many of the online billing initiatives aimed at consumers have seen a slow rate of adoption, use is increasing, such that the public/financial relations and reputation management firm TowersGroup suggests about 43 million U.S. households are now involved in EBPP in some fashion or other. People are becoming accustomed to undertaking many of their day-to-day transactions online—including banking, shopping and travel reservations—so it should not be surprising to see online bill payment become a part of that mix.

And when it comes to EIPP initiatives, accountants around the world are becoming aggressively involved. Financial managers, too, are recognizing the importance of the strategy. A survey by the Institute of Management and Administration (IOMA) found that among 500 accounting department managers, a focus on best practices in the accounts payable department often provided the greatest benefit. Upon investigating that issue further, IOMA found those best practices that led to the best returns often consisted of improvements in the invoice/document matching process—and e-billing/EBPP systems were often a key component of this practice.

This shift in focus means, increasingly, there is an opportunity for government organizations to demand those who are supplying them with goods and services issue their invoices electronically, with subsequent payments by government undertaken through an e-payment network. The accounts payable departments are becoming the primary strategic drivers of efforts to adopt EBPP and EIPP, rather than the traditional activities by the receivables departments.

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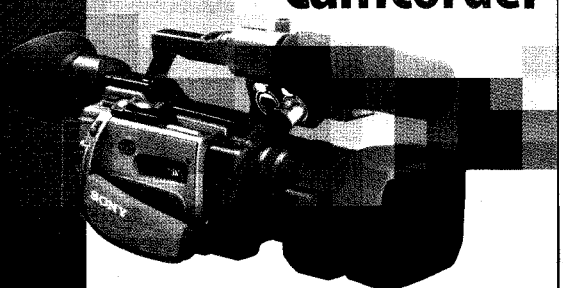

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